



KENYATTA UNIVERSITY
UNIVERSITY EXAMINATIONS 2017/2018
SECOND SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF
ECONOMICS AND FINANCE

EAE 404: ECONOMICS OF PUBLIC ENTERPRISES

DATE: Wednesday, 18th July 2018

TIME: 11.00 a.m. - 1.00 p.m.

INSTRUCTIONS:

- i) Answer Question ONE and any other TWO questions**
- ii) Do not write on the question paper**
- iii) Show your working clearly.**

QUESTION ONE (30 MARKS)

- a) Briefly explain four advantages that departmental undertakings have over other forms of public enterprises. (4 Marks)
- b) Explain six reasons why the government may enter into partial ownership of a going private enterprise. (6 Marks)
- c) State five advantages and five disadvantages of Public Enterprises. (10 Marks)
- d) Briefly explain any five reasons used to advocate for the public sector reforms. (10 Marks)

QUESTION TWO (20 MARKS)

- a) Distinguish between a public company and public corporation and give examples of each. (4 Marks)
- b) State four ways that may be used to give greater role to market forces in the functioning of institutions. (4 Marks)
- c) Briefly explain six ways that the state may use to transfer a public enterprise from state to private ownership. (12 Marks)

QUESTION THREE (20 MARKS)

- a) Briefly explain any seven problems encountered by public enterprises in Kenya. (10 Marks)
- b) Explain the five types of classification used to classify public enterprises. (10 Marks)

QUESTION FOUR (20 MARKS)

- a) You have been given the following information about various projects.

| PROJECT | YEAR | | | | |
|---------|----------|------|------|-----|-----|
| | 0 | 1 | 2 | 3 | 4 |
| A | (1000) | 1200 | 0 | 0 | 0 |
| B | (1361.1) | 500 | 500 | 500 | 500 |
| C | (1000) | 1200 | 1500 | 0 | 0 |
| D | (2000) | 1000 | 0 | 0 | 0 |

Required:

Assuming an interest rate of 10%, evaluate the above projects using NPV criteria. (8 Marks)

- b) Explain six levels that the government can use in Evaluation of Efficiency of public enterprises. (12 Marks)

QUESTION FIVE (20 MARKS)

- a) Highlight three Limitations of Marginal costing as a pricing policy for public enterprises. (6 Marks)
- b) Explain the following reforms strategies; restructuring, privatization and public-private partnership. (9 Marks)
- c) Discuss the role of government in a capitalist system. (5 Marks)